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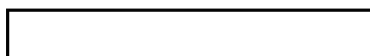
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CYPRUS

Archbishop Makarios' appearance before the UN Security Council this afternoon will raise the curtain on the Council's first detailed consideration of the Cyprus crisis. An earlier meeting on Tuesday was inconclusive.

Makarios will ask for a resolution declaring him the legitimate head of the government of Cyprus, calling for the withdrawal of the Greek officers in the Cypriot National Guard, and pledging nonrecognition of the new Cypriot government.

The US mission to the UN reports that withdrawal--not just replacement--of the Greek officers of the Guard has become the "irreducible minimum" that nearly all Security Council members want in any resolution. The draft being circulated by five nonaligned members of the Council contains that provision but avoids the question of Makarios' legitimacy.

The Soviets want to make the resolution tougher by referring to Makarios as President of Cyprus, alluding to Greek interference in Cyprus' internal affairs, and demanding the immediate cessation of Greek military intervention. The UK is also proposing amendments to toughen the resolution.

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Cypriot representation at today's Council session, however, is likely to be confused. Although he has been dismissed by the Sampson government, Makarios' UN ambassador continues to function as the Cypriot representative. Meanwhile, the Sampson government is sending its own delegation to the UN.

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Athens has told NATO that Greek officers put at the disposition of the Cypriot government will be replaced in stages. Athens appears to be referring to the Greek officers in the National Guard who were involved in the coup, rather than the Greek mainland contingent scheduled to be replaced today during its semi-annual rotation.

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[REDACTED]

Greek Cypriot troops have launched a massive man-hunt for left-wing and pro-Makarios supporters. More than 1,000 have been arrested, according to press accounts.

In a press conference yesterday, newly installed President Nicos Sampson said he would visit Athens soon for consultations with the Greek President. He denigrated the Makarios regime but pledged to continue its foreign policies, including "enlarged" talks between the Greek and Turkish communities on the island. In an attempt to create a responsible image for itself, the new government has been broadcasting a report that Glafcos Clerides, Makarios' constitutional successor, has agreed to continue as the Greek Cypriot representative in these talks. The Yugoslav ambassador to Cyprus told the US embassy, however, that Clerides had categorically denied to him that he would be willing to serve as representative of the Sampson government.

Turkish Prime Minister Ecevit returned to Ankara this morning from talks in London and said he was "closer to finding a solution." Parliament will reconvene on Saturday to discuss the Cyprus problem.

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The Turkish government can expect a strong endorsement from all political parties if it recommends intervention. Its armed forces remain in an advanced stage of alert.

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EGYPT-JORDAN

King Husayn won a major concession from President Sadat yesterday in his effort to assert Jordan's right to negotiate for a return of the Israeli-occupied West Bank without Palestinian interference.

A joint communiqué, issued at the conclusion of Husayn's three-day visit to Alexandria, notes that both Jordan and Egypt agree on the need for a disengagement agreement on the Jordanian front as the next step toward a settlement. Husayn has been pressing this position himself, but because it implies exclusion of the Palestinians in the next stage of negotiations, Sadat had previously avoided confronting the issue directly. The communiqué appears to accede to Husayn on Palestinian representation at the Geneva peace conference, giving the Palestine Liberation Organization the status of legitimate representative of Palestinians outside the Kingdom of Jordan.

The wording does not precisely define the limits of "Jordan," omitting specific reference to the West Bank, which both Jordan and the Palestinians claim. This ambiguity could allow Sadat to claim that he considers the PLO as the spokesman for West Bank Palestinians. Husayn can and will claim the opposite, however, and, taken in conjunction with the call for disengagement negotiations in Jordan, the statement in effect commits Sadat to Husayn's position.

In the joint statement Husayn supports the need for an independent PLO delegation at Geneva, but the communiqué puts this off until an unspecified "appropriate time" and refers only to the Palestinians' right to "self-determination." Husayn is on record as ready to allow Palestinian self-determination after he has negotiated the territorial question, whereas the PLO considers itself the only proper negotiator for the West Bank.

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By its imprecise wording, the communiqué allows Sadat an out on this question as well, but again he appears implicitly on Husayn's side. He may now hope to be able to persuade the Palestinians to accept Husayn's views, in the expectation that the PLO can work for an independent state after an Israeli withdrawal from the West Bank.

The communiqué marks Sadat's first attempt to take a clear public stand in his controversial effort to coordinate the conflicting Jordanian and Palestinian positions. It affirms Egypt's and Jordan's agreement that "continued and regular" coordination must take place with the Palestinians and Syria, but Sadat faces bitter criticism from the Palestinians, who will interpret his accord with Husayn as an abandonment of their cause. [REDACTED]

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USSR - MIDDLE EAST

The Soviets have reiterated their interest in reconvening the Middle East peace conference and have restated their position on a Middle East settlement. The statements suggest that neither the forthcoming visit to Moscow by PLO chief Arafat nor the abrupt cancellation of the Fahmi visit signals a change in Moscow's line on the Middle East.

Recent conversations between Soviet Middle East experts and US officials indicate that Moscow wants the conference reconvened in September, after the proposed Arab summit. Soviet First Deputy Foreign Minister Kuznetsov told Ambassador Stoessel that the Geneva conference should not be postponed because of uncertainty over Palestinian participation.

The Soviets say that lack of unity among the Palestinians remains a problem, although some progress has been made in recent months. The Soviets are planning to receive a Palestinian delegation headed by Yasir Arafat during the summer, but the date evidently is not set.

One knowledgeable Soviet Foreign Ministry official asserts that the Arafat visit, as in the past, will be "unofficial," with the Afro-Asian Solidarity Committee, not the government, serving as host. The Soviets say they will not permit a permanent PLO office to open in Moscow at this time. Nevertheless, Moscow has been edging toward formal recognition of the PLO as the spokesman for the Palestinians.

[REDACTED]

The Soviets are being reticent about the postponement of Egyptian Foreign Minister Fahmi's visit.

[REDACTED]

[REDACTED] Moscow may not be ready to drop its embargo on arms shipments or to agree to a Brezhnev-Sadat summit. Both subjects were to be high on Fahmi's agenda.

[REDACTED]

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IRAN

Tehran's deal for a quarter interest in Fried Krupp Huttenwerke A.G., the steel and engineering subsidiary of the giant West German complex, involves the purchase of about \$60 million of preferred stock. The firm, reportedly in need of capital, broke its long-standing ban on foreign participation in ownership by agreeing to the Iranian purchase. Under the agreement, Iran will have a member on the supervisory board of the parent company and a member on the board of the subsidiary.

[REDACTED]

[REDACTED] Both sides are setting up a joint investment company in Zurich to finance future foreign investments by Krupp and carry out projects of interest to Krupp and Iran. Krupp presently is committed to the expansion of Iran's steel industry, but is also interested in a number of other projects, including cement, vehicle transmissions, and foundry parts for the car industry.

This latest move comes on the heels of the Shah's cooperation agreement with France, which outlines some \$4 - \$5 billion in industrial projects for Iran. In that deal, the Shah broke precedent by agreeing to advance \$1 billion to France over three years in prepayment for projects. [REDACTED]

[REDACTED] the Shah has indicated that the UK would get \$1.2 billion in advance payments, presumably for contracted industrial goods and other items yet unordered. These arrangements with Krupp, France, and the UK further the Shah's plan to use his vast oil-induced financial surpluses, which this year may reach \$7 billion, for industrial development.

The Shah's actions could help France and the UK cope with their balance-of-payments problems. Moreover, the transfer of oil money into long-term investments is some help to the international banking community, whose long-term lending now is inhibited by an imbalance between long- and short-term deposits from oil producers. [REDACTED]

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EUROPEAN COMMUNITIES

The Council of Finance Ministers, at a restricted meeting in Brussels this week, failed to adopt new measures for jointly handling Europe's oil-related trade and payments problems. The delegates focused on three proposals:

- Coordinating domestic monetary and fiscal policies by member states.
- Floating a Community-backed loan to provide financing to countries unable to borrow from the Euro-dollar market on terms that are politically acceptable.
- Increasing members' official reserves by revaluing national gold stocks.

Discussion centered on recommendations prepared by the EC Commission that members with current account deficits take restrictive domestic measures, while those in surplus stimulate domestic economic growth. London, which is faced with a large deficit, excess industrial capacity, and growing unemployment, is determined to avoid a commitment to an anti-inflationary policy. Bonn, with an enormous surplus, is unwilling to expand economic activity until inflation is brought under control. The Commission's proposal was watered down at the insistence of the UK so that it does not restrict member governments.

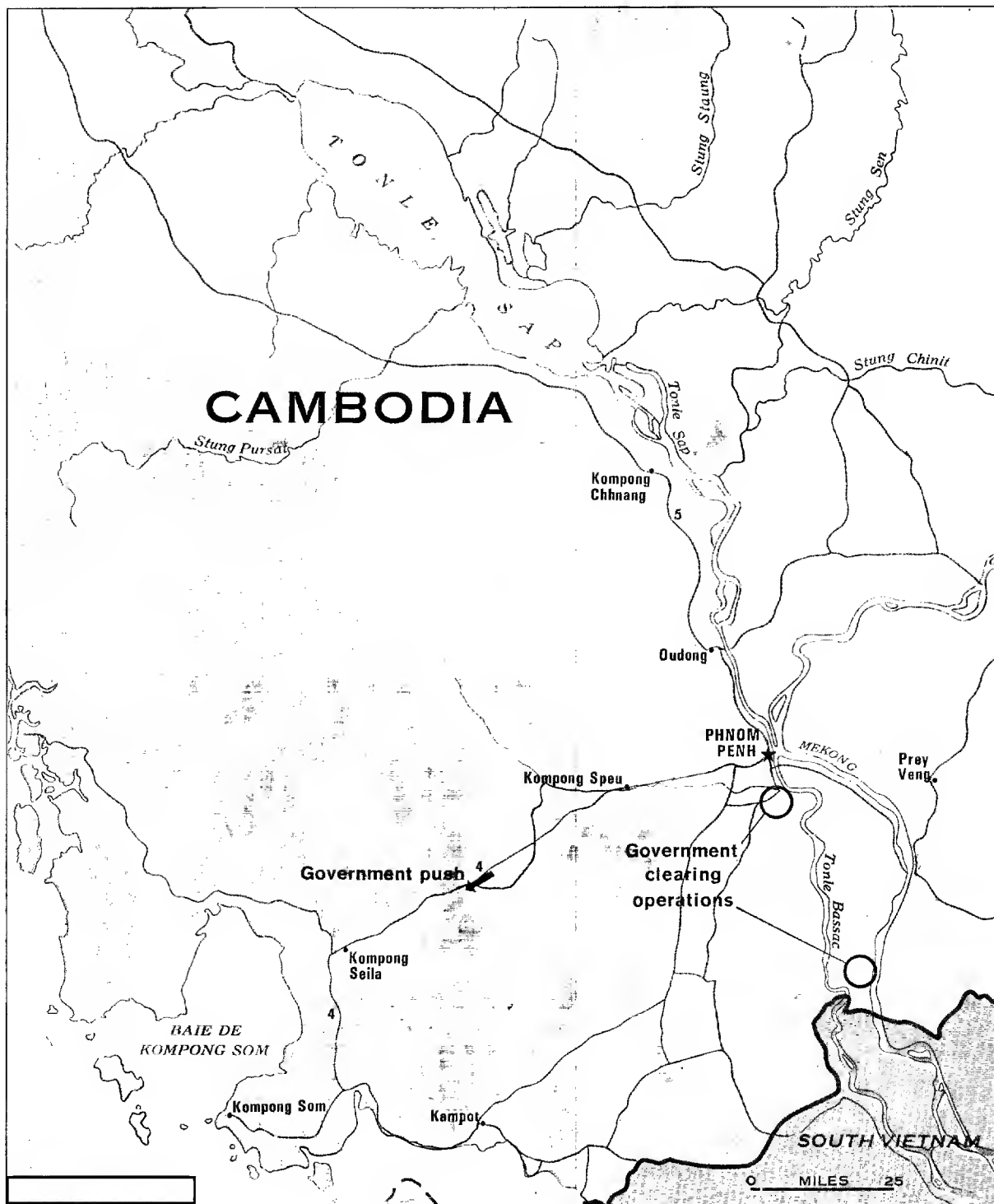
Representatives of West Germany and the UK stressed that the resources of the International Monetary Fund and private capital markets should be fully utilized before Community funding is undertaken. Bonn's opposition made agreement in principle on joint financing impossible because Bonn would be the principal guarantor of any EC undertaking.

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A French proposal that member states collectively revalue gold reserves was rejected by the UK, Germany, and the Netherlands. The UK representatives argued that this would amount to the EC's unilaterally establishing a new official price. The ministers reaffirmed the informal understanding reached at the meeting of the Group of Ten in Washington last month permitting the use of gold reserves as collateral.

Significant new Community initiatives in any of the areas covered in the discussions are unlikely in the near future. The ministers did agree to pursue their dialogue in monthly meetings; the next is scheduled for September 9.



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CAMBODIA

Government forces are taking the initiative on several battlefronts.

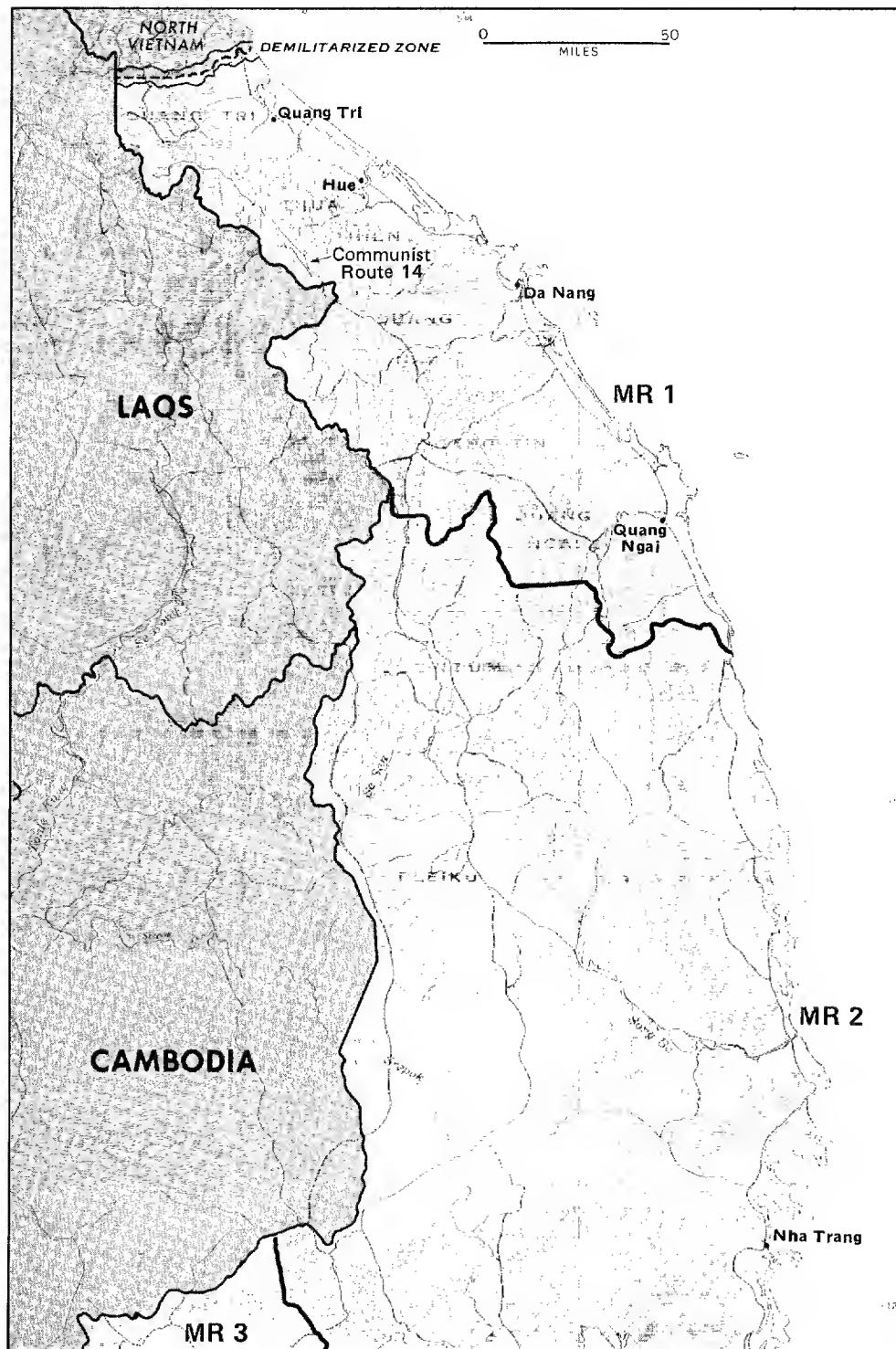
Cambodian army units northwest of Phnom Penh pushed out from Oudong on July 16 and killed 180 Khmer Communist troops in stiff fighting just south of the town. To the northeast, army commanders are reinforcing positions on both banks of the Tonle Sap River, which is now open to both civilian and military traffic. A large civilian river convoy moved 5,000 tons of foodstuffs from the provincial capital of Kompong Chhnang to Phnom Penh early in the week.

Government clearing operations are continuing along the Bassac River just southeast of Phnom Penh and along the lower stretches of the Mekong River. A recently completed army operation near the provincial capital of Prey Veng, 25 miles east of the capital, resulted in over 60 insurgent casualties and only light government losses.

On the Route 4 front, the government task force that last month relieved an isolated garrison west of Kompong Speu city is now pushing on down the highway toward Kompong Seila. That encircled town has been under steady attack since mid-May, and over half of its 2,000 defenders have been killed or wounded. Farther south, army units at the coastal city of Kampot are moving to retake several outposts abandoned in the face of insurgent ground attacks late last week. [REDACTED]

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SOUTH VIETNAM



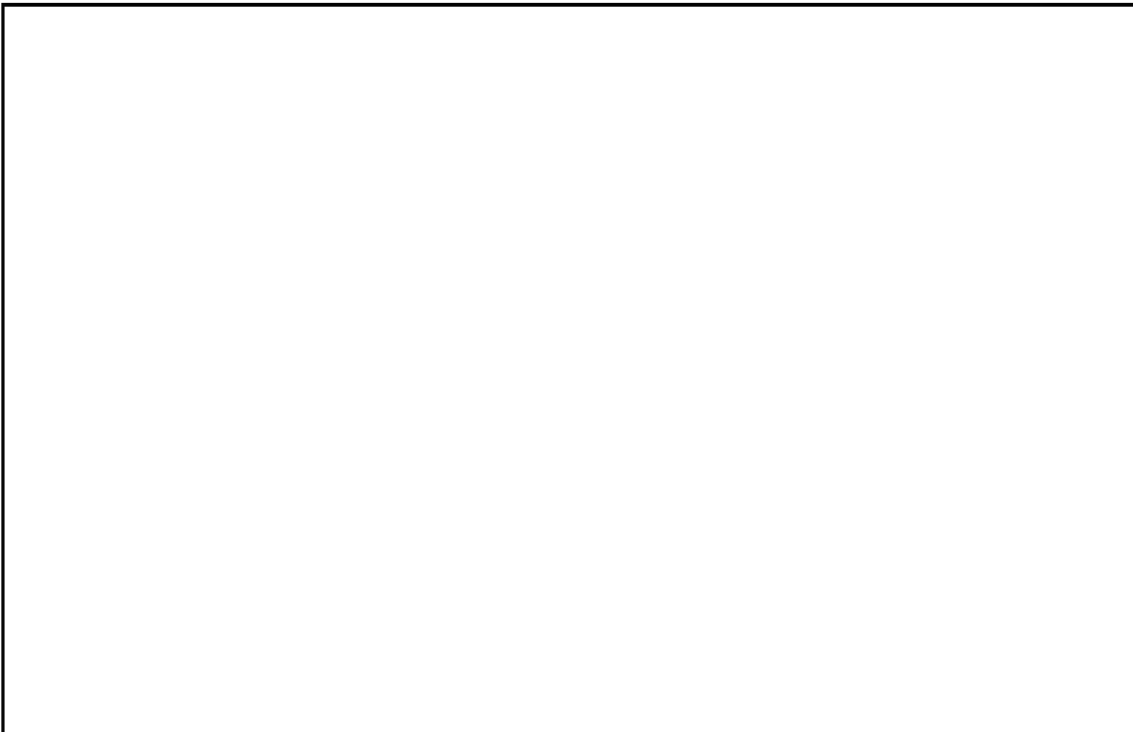
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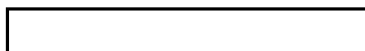
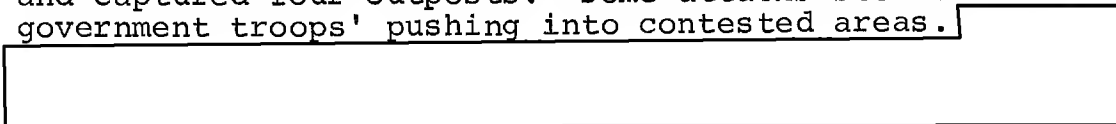
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SOUTH VIETNAM

North Vietnamese logistic units are now conducting a major resupply effort to build up stockpiles. At the same time, Communist forces are increasing tactical activity in northern South Vietnam. While the fighting is likely to be heavy at times, it is not expected to escalate into a large-scale offensive. So far, it has occurred primarily in areas contested by both sides since the cease-fire.



North Vietnamese combat units have intensified their attacks west and south of Hue in the past week. On July 11 and 12, Communist forces attacked South Vietnamese Marine positions in northwestern Thua Thien Province and captured four outposts. Some attacks stemmed from government troops' pushing into contested areas.



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There also has been some heavy fighting in the southern part of Military Region 1. Late reports indicate that Communist forces overran a number of regional force positions in southern Quang Nam Province on July 18, forcing the government to send reinforcements to the area. The commander of the region has kept his forces on the move/

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The new fighting in Quang Nam may, therefore, be directed at tying down government forces.

Communist forces renewed their attacks in the high-land provinces of Kontum and Pleiku early this week and have overrun a number of government outposts. The South Vietnamese are anticipating heavier action during the coming week but feel confident that government forces can contain the Communists.

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PHILIPPINES

President Marcos has ordered a reassessment of government counterinsurgency programs in the Muslim south. He is concerned that the rebels have again seized the initiative, despite months of concerted political, economic, and military efforts by the government.

Muslim rebels increased their attacks in early June, apparently to attract the attention of world Muslim leaders prior to the Islamic foreign ministers' conference held recently in Kuala Lumpur. Since the conference, the rebels' military campaign has continued. Government forces have taken substantial casualties, leading to morale problems among the troops and bickering among commanders. In addition to the usual hit-and-run attacks on government forces and civilians, the Muslims are now carrying out sabotage attacks against government installations.

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Marcos may well decide that, with the Islamic conference safely over, he can risk taking a harder line in the south. He is not giving up the idea of negotiations, however

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PHILIPPINES

The first round of negotiations with the US on a new economic agreement ended abruptly this week when Finance Secretary Virata indicated that Manila would give US proposals "careful study," but he made no firm commitment as to when talks might resume. The Filipinos, realizing that US negotiators lack legislative authority to deliver on trade concessions, will probably await passage of the US Trade Reform Act before continuing negotiations.

US negotiators had hoped for a new economic pact to replace the Laurel-Langley Agreement, which expired earlier this month ending a 20-year period of special economic relations. The agreement included reciprocal trade preferences and a highly controversial parity clause that provided for Americans to be treated equally with Filipinos in the use of public lands and natural resources.

The breakdown of the talks is bound to cause concern among some US investors in the Philippines who, having lost parity treatment, will have to comply with Philippine constitutional restrictions on land ownership and retail trade activities by the end of next May. Most of the affected firms, however, either have met or are in the process of meeting Philippine requirements. The overall impact on US holdings, which account for three fourths of total investment in the Philippines, will be small, since most of these are in nonparity areas.

Lack of formal treaty guarantees will probably have little effect on future US investment. Marcos has painstakingly sought to improve the Philippine investment climate, and it is highly unlikely that he would now take action that would cut the flow of investment funds necessary to maintain the momentum of the economy.

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PORTUGUESE AFRICA

An upsurge in rebel activity in Mozambique and racial disturbances in Angola are the latest reminders to President Spínola's regime that its control over the two territories is eroding and that Lisbon may be forced to reach political settlements there sooner than it had hoped.

In Mozambique, insurgents of the Front for the Liberation of Mozambique are expanding their operations in a clear attempt to put increased pressure on the Portuguese government at a time of political uncertainty in Lisbon, and to convince the territory's population that the front is the dominant power there. Intensified guerrilla attacks on transportation lines in Tete district near the large Cabora Bassa hydroelectric power project have interrupted the flow of supplies to the construction site. These transportation links have been a favorite rebel target for several years.

Over the past week, guerrillas also moved into Zambezia district in eastern Mozambique, an area in which they had not operated since the late 1960s. Although their operations in the district so far have been minor, their presence has created panic among some white residents and sparked unfounded stories that at least one major town in the district had fallen to the rebels.

The Portuguese military in Mozambique have adopted a defensive posture. They see a political settlement as inevitable and are therefore reluctant to take risks. The insurgents are exploiting this in an effort to force Lisbon to transfer political power to the front and give up plans for an eventual referendum in Mozambique.

In Angola, Lisbon is likely to face more pressures from the civilian population than from the insurgents, who remain divided and unable to initiate military operations. The murder of a white taxi driver in Luanda last week sparked racial clashes and demonstrations by

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both blacks and whites for greater protection. About 20 persons were killed before the authorities restored order. Renewed racial violence in Luanda on July 17 reportedly resulted in five more deaths.

A special commission of inquiry will soon arrive from Lisbon to investigate the disturbances. Meanwhile, local officials are disarming Luanda's taxi drivers, almost all of whom are white and quick on the trigger. The authorities are also trying out a plan to give blacks in the security forces greater responsibility in Luanda's black sections.

White and black Angolans appear more uneasy about their future than Mozambicans, most of whom assume that an accommodation with the insurgents and independence are only a matter of time. In Angola, the absence of a clearly definable insurgent threat and Lisbon's failure to show support for increased local autonomy and political activity has prompted many Angolans to fear that Lisbon has no intention of loosening its grip on the territory.

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PERU

President Velasco appears to be preparing to bring the press under government control. Such a move, which may be announced during his National Day speech on July 28, would be a major step toward authoritarian control and a victory for radical elements in the government.

Freedom of the press has been the single most contentious issue within the regime since it came to power in 1968, and the time may now be ripe for a decisive move. Two of the strongest proponents of at least limited freedom of dissent are no longer in the cabinet: Admiral Vargas was forced to resign in May and General Morales Bermudez is serving as army chief of staff. In 1973, these two played crucial roles in blocking the takeover of El Comercio, Peru's most prestigious daily. Moreover, in recent months Velasco has displayed an exaggerated sensitivity to criticism of his policies, spurred in part by counsel he has received from his more radical advisers.

The new controls would be directed primarily at the few remaining independent dailies, some of which are still controlled by members of Peru's old oligarchy and have opposed the government's more radical programs. The papers with leftist orientation, which already support the regime and defer to its wishes, would probably also come under closer government scrutiny.

The government probably would not itself take immediate control of the press. Instead, a presidential decree might outlaw private ownership of newspapers and invest control in quasi-government companies composed of representatives of the government and various worker-controlled organizations. Later, control might be transferred to the government itself.

Civilian opponents are likely to decry such a move, but any significant opposition would have to come from moderates within the military. Even if the moderates

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unite on this issue, however, Velasco's current strong support within the army is likely to prevent serious short-term opposition. Over the longer term, complete government press control will increase moderate officers' dissatisfaction, undermine what little civilian support the regime now has, and possibly frustrate Velasco's efforts to carry out other important domestic policies.

[REDACTED]

CUBA-PANAMA

Cuba's national airline may soon initiate regular service to Panama City. The service would greatly facilitate travel for the increasing traffic between Cuba and Latin America which, unless specially chartered flights are available, must now go by way of Lima, Mexico City, Europe, or the eastern Caribbean.

The airline, which already has regular nonstop flights between Havana and Lima, signed a new passenger traffic rights agreement with the Peruvian government on June 13 that may provide for stopovers in Panama.

[REDACTED]

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CHILE

A dispute over radio censorship is deepening the estrangement between the military government and the Christian Democratic Party and could drive the party into outright opposition. This was revealed when the government press office released two letters exchanged between the former interior minister and the leader of the party.

Early last month the government ordered what it considered offensive programming to be removed from the major station of the Christian Democrats' radio network. Party president Aylwin sent a strongly worded letter of protest to then Interior Minister Bonilla as a result of this directive. Bonilla replied in kind, bluntly reprimanding Aylwin for engaging in conduct inappropriate for the leader of a "recessed" political group. The tone of his response may have been stimulated by Bonilla's desire to regain favor with the military, some of whom had been critical of his performance as interior minister and had accused him of being overly sympathetic toward the Christian Democrats.

Why the government press office chose to make both letters public this week is unclear, but it may have been the work of right-wing civilian advisers who have been trying to stir up trouble between the armed forces and the Christian Democrats. The party now is awaiting the government's response to a second letter it sent Bonilla. It anticipates replying to this response with yet another--this one to be signed by all former Christian Democratic congressmen--that will probably include broad criticism of the government's policies.

The government's next move may take the form of a letter from General Cesar Benavides, the new interior minister. Bonilla was moved to the Defense Ministry during the cabinet shake-up earlier this month. In contrast to his predecessor, Benavides is known as a strict disciplinarian who has no special ties to the Christian Democrats.

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Relations between the party and the government have approached the brink before, but up to now neither side has wanted to risk an open break. This time, however, the dispute appears to have taken on a momentum of its own, and both sides may have gone too far to back down. Movement of the Christian Democrats into opposition would seriously erode the military government's claim to mass civilian support and would have a negative impact on the junta's already poor international image.

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FOR THE RECORD

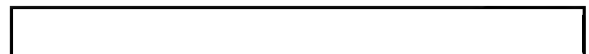
France: The third French nuclear-powered ballistic-missile submarine, Le Foudroyant, is now operational. The submarine was turned over to the French navy on June 6, according to press reports. Le Foudroyant will probably take up the patrol cycle of Le Redoubtable, which is scheduled for a 15-month overhaul. France's fourth missile submarine, L'Indomptable, will be launched in mid-September. French missile submarines carry 16 missiles

[REDACTED]

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